GLOBAL COMMUNICATIONS LIMITED

ANNUAL REPORT 1979

DIRECTORS AND OFFICERS

Global Communications Limited
81 Barber Greene Road, Don Mills, Ontario M3C 2A2

DIRECTORS

*I.H. Asper, Q.C., Chairman of the Board and Chief Executive Officer, CanWest Capital Corporation (Merchant Bankers)
Leonard E. Barlow, Retired Investment Dealer
John S. Elder, Partner, Fraser & Beatty (Barristers & Solicitors)
*Seymour Epstein, P.Eng. Cons., Chairman of the Executive Committee of the Corporation
Claude C. Frenette, Chairman of the Board, Interallied Management and Development Group Ltd. (Management Corporation)
Edward A. Horton, Partner, Fraser & Beatty (Barristers & Solicitors)
*Duncan J. Jessiman, Q.C., Partner, Pitblado & Hoskin (Barristers & Solicitors)
*Paul Morton, President of the Corporation
*Gurston I. Rosenfeld, President, Guardian Growth Financial Services Limited—Vice-President & Director, Guardian Capital Group Limited (Merchant Bankers)
Gerald W. Schwartz, President, CanWest Capital Corporation (Merchant Bankers)
*Arni C. Thorsteinson, Executive Vice-President, Shelter Corporation of Canada Limited (Real Estate Investor and Property Manager)

OFFICERS

I.H. Asper, Q.C., Chairman of the Board
Seymour Epstein, P.Eng. Cons., Chairman of the Executive Committee
Paul Morton, President, Global Communications Limited
David L. Mintz, President, Global Television Network
John G. Craig, C.A., Vice-President, Finance and Administration
William R. Cunningham, Vice-President, News and Public Affairs
Donald W. MacPherson, Vice-President, Production
William A. Stewart, Vice-President, Programming
Peter D. Viner, Vice-President, Marketing
John S. Elder, Secretary
K. Cameron Johnson, C.A., Treasurer
Allan W. Bayley, Controller

AUDITORS

Clarkson, Gordon & Co., Toronto, Ontario

SOLICITORS

Fraser & Beatty, Toronto, Ontario

TRANSFER AGENTS

Guaranty Trust Company of Canada, Toronto, Ontario

Global Communications Limited owns and operates the Global Television Network.

Global Communications Limited is a constrained share corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

*Members of the Executive Committee

REPORT TO SHAREHOLDERS

We are pleased to present the sixth Annual Report of Global Communications Limited. It has been a challenging year for the management of your Company.

While television broadcasting remained our main business, we made an acquisition in the recording industry just before this fiscal year began and later went into professional soccer. Details of these acquisitions will be given later in this report.

Financial Highlights

For the year ended August 31, 1979, consolidated revenue increased from $29,975,949 to $55,241,824. During the same period, expenses increased to $54,693,999. After allowing for interest on income debentures and provision for income taxes, the loss before extraordinary items was $2,909,006.

During the year, there was an extraordinary gain of $2,456,613 from the recovery of income taxes as a result of prior period losses. This gain reduced the net loss to $452,393 as compared to a profit of $3,373,401 a year ago.

(a) *Television Broadcasting and Production Division*

The television broadcasting and production division of the Company continues to perform well and revenue again reached record levels. The continued problems of escalating foreign program costs and higher interest rates caused slightly decreased profits compared to the previous year. This division had a pre-tax income of approximately $5,086,000 compared to a pre-tax income of $5,104,000 for the previous year.

(b) *Record Division*

The American operations of the record division were profitable but these profits were inadequate to offset the significant and unacceptable losses sustained by our Canadian record operations. The record division suffered an operating loss during the year of $3,178,000. Subsequent to the year end, the resignation of the record division's President was accepted, staff were reduced and other steps have been taken to reduce the losses in the recording area. Developments and trends in the entire North American recording industry have given us cause for concern about its future. We are therefore reviewing our long-range plan regarding your Company's involvement in the field.

(c) *Soccer Division*

Early in 1979, the Company acquired 86.7% of the stock of Prosoccer Limited which holds a Toronto franchise in the North American Soccer League. In line with our long-range business plan, your Board of Directors decided that it was important for Global to obtain broadcast control of major sports properties in Ontario. Research showed that the growth prospects for soccer in the 1980's were overwhelmingly brighter than those of any other sport. Efforts had been under way to acquire this company for about a year before the transaction was completed. We decided that it was vital to control all aspects of the soccer operation instead of simply acquiring broadcast rights. This was because of problems inherent in the prior ownership structure and the over-riding need to change and enhance the club's image. In addition, Global committed to lending Prosoccer $1 million in additional working capital or alternatively purchasing $1 million in additional common shares.

Results for the year were approximately as budgeted with a loss of approximately $1.3 million.

However, we are delighted with the progress made in the course of the last season: Official attendance for the team's games at the Toronto CNE stadium grew from an average of 4,000 per game in 1978 to approximately 12,000 in 1979. This increase was achieved even though our operations were hampered by the short preparation time between the acquisition and the start of the season, a weak schedule and a team without substantial support in the Toronto area. Since year end, Mr. Clive Toye has been our new President and Chief Executive Officer. He has come to Toronto with a reputation unsurpassed in professional soccer in North America. Mr. Toye is the former President of both the New York Cosmos and Chicago Sting and has been actively involved in league planning. We are convinced that he is the best qualified professional available to undertake the job of running the Blizzard in the North American Soccer League.

It is expected that attendance will continue to grow this year and that losses will be reduced significantly. The primary motive for the acquisition—to provide us with a major sport for telecasting—has been vindicated in the first year of operation. The strong promotion of the Blizzard by Global and the broadcasting of eleven games by Global worked to the advantage of both organizations. We believe that the team will not only be operationally profitable over the next several years, but will also develop a significantly greater capital value to Global Communications Limited. On December 18, 1979, Global purchased a further 3,333,333 shares for $1 million. In addition a rights offering is being extended to all shareholders. If Global acquires the shares being offered, its equity position will be approximately 90%.

Programming Developments

During fiscal 1979, a decision was made by your Company to move aggressively to secure the best programming available from the American Networks for Global. Global's current schedule shows how successful it has been. Four of the top five U.S. Network shows are now seen in Ontario on Global.

In an attempt to offset the increasing cost of U.S. programming, experiments have also been undertaken with British and Australian shows. So far we are satisfied with the results of this experiment and expect that it will continue.

In the area we can point to with our greatest pride—Canadian Programming—Global was instrumental in creating the $4 million, 26-part television series "Matt & Jenny". This is a co-production of Global, Shelter Films Limited and Polytel Limited of the United Kingdom. It has been selected as the best Canadian television series for 1979 by the Canadian Film and Television Association and has been sold in a number of other countries, including Germany, France and Holland. Another new program, "Easy Country", featuring new Canadian Country and Western artists, is recorded at various locations in Ontario. These programs supplement such staples in Global's schedule as "What Will They Think of Next", which is shown across Canada and in many foreign countries, "Quiz Kids", and our very strong news-oriented programs.

C.R.T.C.

We hope that the appointment of a new Chairman of the Commission, Professor John Meisel, will result in the Commission coming to grips with some of the major problems facing

Canadian communications. Important hearings are scheduled on Pay Television and a revision of the Canadian Content regulations. Your Company will be making representations to the Commission at these hearings. There will also be a Licence Renewal hearing for all Toronto-area broadcasters later next year.

Global has filed applications for improved service in a number of areas within the Global Grid, including Brockville, Belleville, Kingston and Cornwall. Another application has been filed for expanded service in Windsor, where our transmitter was destroyed by fire in August, 1977. We expect all of these applications to be dealt with during the course of 1980.

Senior Personnel Changes

Over the last six years, your Company had experienced dramatic growth without any significant additions or re-structuring of management. During the past year it became apparent that if we were to pursue a policy of vigorous growth in the 1980's it was vital that the company should be re-structured and that key additions should be made.
A Corporate office has therefore been established. This consists of Chairman of the Executive Committee Seymour Epstein, Vice-President of Finance John Craig, Peter Viner, who is being promoted from Vice-President of Marketing to Corporate Vice-President and President Paul Morton, who continues to have the senior operating responsibilities for the Company. They, together with certain other staff members, will be responsible for Finance, Corporate Development, Government Relations, Long Range Planning and the monitoring of the Company's various divisions. The Company itself has been restructured into four operational entities: Global Television Network, Global Production, the Toronto Blizzard and the various recording companies. Mr. David Mintz, who has joined Global as President of the Global Television Network, brings more than twenty years of broadcasting experience to our team. Mr. Mintz has deservedly earned an outstanding record in television broadcasting both in Canada and the United States. Mr. Don MacPherson, formerly Head of English Service Division for the CBC, has become President of the Global Production Division. Mr. Clive Toye as mentioned earlier, has been appointed President of the Toronto Blizzard and Mr. David Harding is the new President of Tee Vee Records Inc.

With Vice-President of News and Public Affairs Bill Cunningham, Programming Vice-President Bill Stewart and Director of Marketing Rodger Hone, these executives give an executive structure which, we believe, is second to none in the Canadian communications industry.

On behalf of ourselves, the Board of Directors, and our Shareholders, we would like to thank these Executives and all other Global Managers and Staff for their outstanding efforts in the last year. We recognize the difficulties which many of them faced during the year and we could not let this opportunity pass without thanking them officially.

Outlook

During 1980, we are forecasting a return to overall corporate profitability. Losses in the Record division should be reduced, if not eliminated, the Blizzard's losses should be significantly reduced and the television

operation's profitability is currently running well ahead of last year.

1980 will be a year of consolidating our operations and integrating our new senior executive staff, so that the base for future growth is firmly in place.

On a longer term basis, there is unusual uncertainty caused by governmental instability and changes in policy direction. We are in the midst of a technological revolution.

Pay Television, changes in Canadian content rules, superstation concepts, satellite home delivery of a multitude of signals, fibre optics, deregulation, video discs, home computer and two-way broadcast communication will be among the key watchwords of the 1980's.

Properly harnessed, all can be used to enrich Canadian social and cultural life. Universally employed, they have the power to destroy much of the Canadian communications system as they affect our industry.

Already a dialogue between our industry and government must continue and your management intends to play a vigorous role in the upcoming discussions with the law-making agencies.

We look forward to seeing you at our Annual Meeting, where this report will be updated and expanded. For those who cannot attend, and who live in Global's Network coverage area, we will follow the practice of previous years by televising the Meeting live in its entirety, starting at 11:00 a.m. Friday, February 22, 1980.

Shareholders who cannot attend may submit questions to the Directors or Management here at Global at any time before the meeting and they will be answered at the meeting.

Respectfully submitted on behalf of the Board of Directors.

I. H. Asper, Q.C.
Chairman of the Board

P. G. Morton
President

January 25, 1980

CONSOLIDATED BALANCE SHEET

Global Communications Limited

(Continued under the Canada Business Corporations Act)

ASSETS

	August 31	
	1979	1978
Current:		
Cash and term deposits		$ 2,704,541
Accounts receivable (note 2(b))	$ 7,756,554	5,465,414
Film, program and player rights	13,283,659	12,056,231
Record and tape inventory (note 2(b))	2,782,840	2,654,363
Prepaid expenses, videotape and other supplies	1,719,967	925,135
	25,543,020	23,805,684
Estimated future tax recovery (note 3)	1,200,000	
Non-current portion of film, program and player rights	17,452,851	8,770,585
Fixed, at cost:		
Land and buildings	809,952	843,703
Transmitter, studio, mobile and technical equipment	11,442.067	10,363,410
Leasehold and land improvements	1,713,419	1,532,393
	13,965,438	12,739,506
Less accumulated depreciation and amortization	5,956,101	4,559,764
	8,009,337	8,179,742
Other:		
Excess of cost of investment in subsidiary over fair value of tangible assets at date of acquisition, net of amortization (note 2(b))	992,812	1,089,288
Investment and advances	17,650	29,916
North American Soccer League franchise (note 2(a))	2,135,206	
	3,145,668	1,119,204
	$55,350,876	$41,875,215

On behalf of the Board:

"I.H. Asper", Director

"P. G. Morton", Director

(See accompanying notes to consolidated financial statements)

LIABILITIES

	August 31	
	1979	1978
Current:		
Bank indebtedness (note 4)	$ 4,791,294	$ 1,830,580
Accounts payable and accrued liabilities	12,442,495	8,969,615
Provision for interest on 1974 Series B debentures (note 5(b))	1,034,210	1,255,474
Instalment Bank Income Debenture	1,050,000	700,000
Film and programming contract instalments due within one year	14,937,053	12,024,345
	34,255,052	24,780,014
Long-term (notes 4, 5 and 6):		
Term loan	1,500,000	
Bank Income Debentures	5,250,000	6,300,000
Non-current instalments on film and programming contracts, and other liabilities	10,707,085	6,884,939
1974 Series A Debentures due January 15, 1983	7,675,000	7,900,000
1974 Series B Debentures due January 15, 1998	100,000	100,000
10% subordinated debentures due January 15, 1983	8,335,350	8,335,350
Loans payable	405,870	
	33,973,305	29,520,289
Total liabilities	68,228,357	54,300,303
Deficiency in shareholders' equity:		
Capital (note 7)—		
Authorized:		
200,230 voting preferred shares without nominal or par value		
2,000,000 common shares without nominal or par value		
Issued:		
185,230 preferred shares	9,262	9,262
665,161 common shares	3,242,133	3,242,133
	3,251,395	3,251,395
Deficit	(16,128,876)	(15,676,483)
	(12,877,481)	(12,425,088)
	$55,350,876	$41,875,215

AUDITORS' REPORT

To the Shareholders of
Global Communications Limited:

We have examined the consolidated balance sheet of Global Communications Limited as at August 31, 1979 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at August 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
December 14, 1979.

CLARKSON, GORDON & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Global Communications Limited

	Year ended August 31	
	1979	1978
Revenue:		
Air time	$ 28,818,322	$ 26,787,510
Production and other	4,674,286	3,188,439
Sales of records and tapes	20,949,004	
Soccer related revenue	800,212	
	55,241,824	29,975,949
Operating expenses:		
Operating, general and administrative	51,943,727	22,182,930
Depreciation and amortization	1,499,537	1,116,320
	53,443,264	23,299,250
Interest (other than interest on income debentures):		
Operating bank loan	318,661	18,745
1974 interest debentures (note 5(a))	167,772	784,186
10% subordinated debentures	833,533	833,535
Other	13,505	18,277
	1,333,471	1,654,743
Less interest income	82,736	82,032
	1,250,735	1,572,711
Total expenses	54,693,999	24,871,961
Income before the following	547,825	5,103,988
Provision for income taxes—current	2,545,014	2,446,433
—less recovery (note 3)	1,200,000	
	1,345,014	2,446,433
Income (loss) before interest on income debentures and extraordinary item	(797,189)	2,657,555
Interest on income debentures:		
Interest on Bank Income Debentures	527,327	445,771
Interest on 1974 Series A Debentures (note 5(a))	503,501	
Provision for interest on 1974 Series B Debentures (note 5(b))	1,080,989	1,284,816
	2,111,817	1,730,587
Income (loss) before extraordinary item	(2,909,006)	926,968
Extraordinary item:		
Income tax recovery arising from utilization of prior period losses	2,456,613	2,446,433
Net income (loss) for the year (note 7(d))	(452,393)	3,373,401
Deficit, beginning of year	(15,676,483)	(19,049,884)
Deficit, end of year	$ (16,128,876)	$ (15,676,483)

(See accompanying notes to consolidated financial statements)

share profit p. 1

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Global Communications Limited

	Year ended August 31	
	1979	1978
Source of funds:		
Operations—		
Income (loss) before extraordinary item	$ (2,909,006)	$ 926,968
Add (deduct) items not requiring a current flow of funds:		
Depreciation and amortization of fixed assets	1,389,225	1,116,320
Amortization of excess of cost of investment over fair value of assets acquired	110,312	
Estimated future tax recovery (note 3)	(1,200,000)	
Total funds provided from operations	(2,609,469)	2,043,288
Term loan	1,500,000	
Recovery of income taxes payable on income before extraordinary items due to application of loss carry forwards of prior years	2,456,613	2,446,433
Issue of common shares		70
Total funds provided	1,347,144	4,489,791
Application of funds:		
Funds applied (net) in financing non-current film, program and player rights—		
Increase in non-current portion of film, program and player rights	8,682,266	4,468,631
Increase in long-term portion of related liabilities	(3,822,146)	(3,432,504)
	4,860,120	1,036,127
Net outlay of funds on acquisition of subsidiary (note 2)	1,730,906	1,284,402
Provision for Bank Income Debenture instalment	1,050,000	700,000
Purchase of fixed assets	1,218,820	1,045,537
Principal repayment of 1974 Series A Debentures	225,000	
Total funds applied	9,084,846	4,066,066
Increase (decrease) in working capital	(7,737,702)	423,725
Working capital deficiency, beginning of year	(974,330)	(1,398,055)
Working capital deficiency, end of year (note 4)	$ (8,712,032)	$ (974,330)
Represented by:		
Current assets	$25,543,020	$23,805,684
Less current liabilities	34,255,052	24,780,014
	$ (8,712,032)	$ (974,330)

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Global Communications Limited
August 31, 1979

1. Summary of accounting policies

The financial statements of Global Communications Limited ("Global") and its subsidiary corporations have been prepared by management in accordance with generally accepted accounting principles consistently applied. A precise determination of many assets and liabilities is dependent upon future events, and therefore, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the corporation and of its subsidiaries. The accounts of Tee Vee Records Inc. have been consolidated to include its operations from the date of acquisition (August 1, 1978) to July 31, 1979. The accounts of Prosoccer Limited, which was acquired during the year (see note 2(a)) have been consolidated from the date of acquisition (February 1, 1979).

(b) Film, program and player rights

The corporation enters into various contracts to acquire film and programming rights. Liabilities under the contracts, which are generally payable in instalments over periods of up to five years, are reflected in the consolidated balance sheet when the contracts are signed, with the related costs recorded as assets. Such costs are allocated between current and non-current assets based on estimated usage in the succeeding fiscal year, are charged to operations over the anticipated period of broadcast use, and are written off when deemed to be of no value. Costs of films included in film and program rights are written off on a weighted cost per play basis.

The purchase cost of player rights is amortized over the estimated time the player is expected to play for the club.

(c) Record and tape inventory

Record and tape inventory is valued at the lower of average cost and net realizable value. Cost is calculated to include pressing, jacket and royalty costs.

(d) Depreciation and amortization

Depreciation and amortization are provided at rates designed to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Buildings	5%
Transmitter, studio, mobile and technical equipment	7½%-20%
Leasehold and land improvements	4%-10%

(e) Income taxes

The corporation follows the tax allocation method of providing for income taxes.

(f) Foreign exchange translation

Current assets and liabilities in foreign currency have been translated into Canadian dollars at the rate of exchange prevailing at August 31, 1979, except for inventory, which together with fixed assets and investments have been translated at their historical cost.

Transactions during the year have been translated at the average rates of exchange prevailing during the year.

Gains or losses arising on translation have been taken into income during the year.

(g) Sales and income recognition

One of the corporation's subsidiaries sells records and tapes on a "guaranteed sale basis". Under this arrangement, credit is given to customers for unsold records and tapes returned. Due to the uncertainties involved in estimating expected returns on new products, the percentage of shipments recorded as sales is based on a historic actual aggregate percentage of net sales to original shipments. Accounts receivable have been reduced for that portion of billings not recognized as sales until the returns are received or the sale is recognized. After a twelve-month time lag from the initial launch all shipments are recorded as sales and an allowance for estimated returns is set up based on actual experience for the particular products.

The subsidiary also sells records and tapes to the general public through the use of the direct response method. Revenue is recognized upon delivery of goods. Expenses related to orders received but not shipped as at August 31, 1979 are deferred in order to properly match revenues and expenses: These deferred expenditures are included in prepaid expenses.

(h) Cost of investment in subsidiary

The excess of cost of the investment in a subsidiary over the fair value of tangible assets at date of acquisition is being amortized on the straight-line method over ten years.

(i) Amortization of NASL franchise

The value attributed to the North American Soccer League franchise (see note 2(a)) will be amortized over forty years commencing in the next fiscal year, being the first full year of operation of the franchise.

2. Acquisitions

(a) During the year subsidiaries of the corporation acquired 5,500,000 treasury common shares and 135,300 existing common shares giving it 86.7% of the total issued common shares of Prosoccer Limited which operates the 'Blizzard' professional soccer team. The total cash purchase price of $1,738,183 resulted in an excess of the purchase price of the shares over the fair value acquired of $2,135,206, the fair value of assets acquired being $1,764,269 and the liabilities $2,161,292. This excess of purchase price of the shares over the fair value acquired has been allocated to the value of the North American Soccer League franchise. The purchase price was advanced to the subsidiaries by the corporation.

One of the corporation's subsidiaries is obligated to purchase a further 500,000 common shares at the option of the holders.

Under the same purchase agreement, one of the corporation's subsidiaries is to provide working capital funds as required, of up to $1,000,000 by way of loans or through the purchase of treasury shares at a price equal to that paid for the shares under this agreement.

(b) During the year the assets and liabilities of Tee Vee Records Inc. as of the date of acquisition (and consolidated with those of the corporation at August 31, 1978) were restated to conform to the corporation's accounting policy. This resulted in an increase of, the excess of the purchase price of the shares over fair value of assets acquired of $511,652 and of inventory of $737,363 and a decrease in accounts receivable of $1,249,015.

3. Income taxes

At August 31, 1979 consolidated losses aggregating approximately $2,345,000 were available to be applied against income of future years, as follows:

Amount available	Available to apply against income earned to August 31
$ 400,000	1981
25,000	1982
2,000	1983
1,918,000	1984
$2,345,000	

Included in the above losses are losses in the current year of $1,440,000 which arose in a partly owned subsidiary. Estimated income taxes recoverable of $1,200,000 have been recorded on losses incurred by a wholly-owned subsidiary in the current year.

In addition, capital cost allowances and other timing differences of approximately $6,850,000 were available for carry forward indefinitely.

4. Bank indebtedness

Under the terms of its banking agreement, the corporation may borrow up to $9,000,000 by way of term debt and up to $3,000,000 by way of an operating loan ($200,000 outstanding at August 31, 1979). At August 31, 1979 $6,300,000 of term debt has been utilized by way of Secured Income Debentures, Series A (the "Bank Income Debentures") of Global and $1,500,000 by way of a revolving term loan which was evidenced by term promissory notes issued subsequent to August 31, 1979.

The Bank Income Debentures, which qualify as "income debentures" under the Income Tax Act (Canada), bear interest at the rate of 2% plus one-half of the bank's prime lending rate, but such interest is payable only to the extent that Global itself has "cumulative net profit", as defined. The term loan bears interest at rates of up to 1¾% plus prime. The term debt may be prepaid in whole or in part without bonus or other penalty, and is repayable in quarterly principal instalments in the following aggregate annual percentages: year ending August 31, 1980—15%; 1981—20%; 1982—25%; 1983—30% (the percentage for 1983 including a final instalment of 7½%).

The bank advances of Global outstanding from time to time are secured by a demand debenture with a first fixed and floating charge on substantially all of Global's assets and a pledge of shares of Global subsidiaries.

The current bank indebtedness includes demand loans to the corporation's subsidiaries as follows:

(a) Tee Vee Records Inc.—U.S. $650,000 and Cdn. $1,175,000, bearing interest at ¾% above the bank prime rate and supported by a general assignment of its accounts receivable, a $5,000,000 demand debenture with a first floating charge on all of its assets and a guarantee from the corporation of up to $2,000,000. Tee Vee Records Inc. also has letters of credit drawn in the amount of $125,000.

(b) Prosoccer Limited—$830,000, bearing interest at ½% above prime and supported by a registered general assignment of its accounts receivable subordinate to security for other loans, and a guarantee from the corporation of up to $1,750,000. Prosoccer Limited also has letters of credit drawn in the amount of $650,000.

The corporation's agreements with the bank contain various conditions and restrictive covenants, as to which it was not in default as at August 31, 1979. These covenants include a restriction on the payment of any dividends without the prior approval of the bank.

5. Debentures

(a) 1974 Series A Debentures (previously 1974 interest debentures) due January 15, 1983

Effective November 7, 1978, the Trust Deed applicable to the 1974 interest debentures was amended such that the debentures were converted to income debentures and are now referred to as the 1974 Series A Debentures. These debentures bear interest in respect of each fiscal year or portion thereof at an annual rate equal to one-half of the bank's prime lending rate plus 2%. Interest is payable only to the extent of "available profit" as defined in the Trust Deed. These debentures are secured by a floating charge on all of Global's assets, subject only to prior claims and security held by Global's bankers and rank pari passu with $5.80 of each $45.00 (or an aggregate of $1,074,334 at August 31, 1979) of principal amount of the 10% subordinated debentures outstanding from time to time. On January 15, 1979 Series A Debentures in the amount of $225,000 were redeemed.

(b) 1974 Series B Debentures (previously 1974 income debentures) due January 15, 1998

The 1974 Series B Debentures bear interest payable at rates applied to pre-tax earnings of the immediately preceding fiscal year, which rates reduce annually by 1% from 26% in 1979 to 20% for 1985 and subsequent years. This interest is subordinate to that under the Bank Income Debentures (note 4). Such interest, when payable, is due on January 15 of the following year, and bears interest at 10% per annum from the end of the fiscal year until date of payment.

Provision for interest under these debentures for 1979 is made up as follows:

26% of unconsolidated net income of Global before income taxes and extraordinary item, but after provision for interest on Bank Income Debentures and 1974 Series A Income Debentures	$1,034,210
10% interest on previous year's 1974 Series B Debenture interest from year end to date of payment, January 15, 1979	46,779
Total provision for interest on 1974 Series B Debentures	$1,080,989

The 1974 Series B Debentures are secured by a floating charge on all of Global's assets, subordinate to the 1974 Series A Debentures and the bank indebtedness.

(c) 10% subordinated debentures due January 15, 1983

The 10% subordinated debentures bear interest at 10% per annum, payable semi-annually.

The 10% debentures carry a floating charge on the assets of Global in Ontario and are subordinate to the interests of the bank and to the 1974 Series A and Series B Debentures, except for $5.80 of each $45.00 (or a total of $1,074,334 at August 31, 1979) of principal amount ranking pari passu with the 1974 Series A and Series B Debentures.

6. Instalments of term loan, Bank Income Debentures and film and programming contracts

Payments required in each of the next five years to repay the following long-term liabilities outstanding at August 31, 1979 are as follows:

	Year ending August 31				
	1980	1981	1982	1983	1984
Term loan			$ 600,000	$ 900,000	
Bank Income Debentures	$ 1,050,000	$1,400,000	1,750,000	2,100,000	
Instalments payable on film and programming contracts	14,937,053	6,050,513	2,426,364	1,926,409	$36,945
	$15,987,053	$7,450,513	$4,776,364	$4,926,409	$36,945

The film and programming contract liabilities are incurred in the normal course of business and these will normally be met through air time revenues generated.

7. Share capital

(a) Restrictions on share transfers

The Board of Directors may make such rules and regulations from time to time as it shall deem necessary or appropriate to enforce the special statutory provisions applicable to constrained share corporations as set forth or referred to in Global's charter. Under the Broadcasting Act (Canada), in effect 80% of the voting shares of Global and other corporations holding a broadcasting licence must be owned by Canadians.

(b) Voting preferred shares

The voting preferred shares were issued in units with the 10% subordinated debentures and are to be purchased, at 5¢ each, for cancellation upon the redemption or discharge of the related debentures by the corporation or on purchase by its subsidiaries.

(c) Common shares, share option and warrants

The corporation has reserved 238,839 authorized but unissued common shares for issuance, as follows:

(i) To the holders of remaining warrants to purchase shares at $7 each, exercisable to January 1, 1983	224,839 shares
(ii) On the exercise of an option to purchase shares at $7 each at any time to January 15, 1983	14,000 shares

The common shares of the corporation now outstanding and to be issued on exercise of the above option and warrants are subject to deposit under the terms of a Voting Trust and Option Agreement which expires on January 15, 1983.

(d) Earnings per share

	Year ended August 31	
	1979	1978
Basic:		
Income (loss) before extraordinary item	$(4.37)	$1.39
Extraordinary item	3.69	3.68
Net income (loss) for the year	$(0.68)	$5.07
Fully diluted:		
Income (loss) before extraordinary item	$(3.13)	$1.06
Extraordinary item	2.72	2.70
Net income (loss) for the year	$(0.41)	$3.76

Fully diluted earnings per share shows the effect on earnings per share which would result if the outstanding warrants to purchase 224,839 common shares at $7 each and the outstanding option to purchase 14,000 common shares at $7 each were all exercised at the beginning of the year. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the warrants and the option had been invested to produce an annual return of 10%, before applicable income taxes and interest on income debentures.

8. Commitments and other matters

(a) Lease obligation and other commitments

During the year the corporation renegotiated the lease terms for its head office, network control centre and production facilities in Metropolitan Toronto with the new

lessor, Global Ventures Western Ltd., a shareholder. Under the old lease expiring December 31, 1998, the rental was $480,000 per annum to be adjusted by 50% of the increase in the cost of living index in 1983 and 1993. Under the new lease arrangement the rental increased effective September 1, 1979 to $652,500 per annum (net) to be adjusted by 50% of the increase in the cost of living index in 1989 for the remainder of the lease term ending December 31, 1993. Under this new lease arrangement the corporation may buy or be required to buy the property at the higher of market price or $5,800,000 being the purchase cost to Global Ventures Western Ltd.

In addition, the corporation has material annual commitments in the normal course of business in various amounts for periods of up to seven years, under contracts relating to the provision of microwave services, news services, services of individuals, and other services.

The corporation's subsidiaries are committed under property leases expiring in various years up to 1986 to total annual rental payments of between $75,000 and $100,000.

(b) Broadcast licence

The corporation carries on its operations under the terms of a broadcast licence. Such licences are issued by the Canadian Radio-television and Telecommunications Commission for periods of up to five years, and are subject to renewal. The corporation's current broadcast licence expires on March 31, 1981.

(c) Product contracts

The corporation's subsidiaries have product contracts which guarantee royalty payments to various licensors and artists.

9. Statutory information

Information with respect to the number of directors and officers of the corporation and their remuneration is as follows:

	1979		1978	
	Number	Amount	Number	Amount
During the year—				
Directors	11	$ 2,300	12	Nil
Officers	11		10	
Officers receiving remuneration	4	$209,550	4	$236,266
As at August 31—				
Directors	11		11	
Officers	11		10	
Number of officers who were also directors during the year	4		4	

The above amount for remuneration does not include amounts paid or payable to corporate entities under management or employment contracts for regular and special services of officers and directors, which amounts aggregated $526,370 in 1979 (1978—$419,382).

10. Comparative figures

Certain 1978 comparative figures have been reclassified to conform to the presentation adopted in 1979 and to the change in allocation of asset values of a subsidiary (see note 2(b)).

CONSOLIDATED SIX YEAR FINANCIAL SUMMARY

Global Communications Limited

	Year ended August 31					
Operating Results (000's)	1979	1978	1977	1976	1975	1974
Revenues	$55,242	$29,976	$22,084	$15,444	$ 8,554	$ 2,917
Operating expenses	51,944	22,183	16,632	13,751	11,224	17,858
Depreciation	1,500	1,116	995	960	911	519
Interest-net	1,251	1,573	1,432	1,572	1,217	346
Pre-tax earnings (loss) (See below*)	548	5,104	3,025	(839)	(4,798)	(15,806)
Income taxes	1,345	2,446	1,468	—	—	—
Income (loss) before income debenture interest and extraordinary items	(797)	2,658	1,557	(839)	(4,798)	(15,806)
Income debenture interest	2,112	1,731	1,144	—	—	—
Income (loss) before extraordinary items	(2,909)	927	413	(839)	(4,798)	(15,806)
Extraordinary items	2,457	2,446	1,858	—	—	2,211
Net income (loss)	$ (452)	$ 3,373	$ 2,271	$ (839)	$ (4,798)	$(13,595)
Earnings (loss) Per Share						
Basic—						
Before extraordinary items	$ (4.37)	$ 1.39	$ 0.62	$ (1.26)	$ (7.21)	$(23.76)
Extraordinary items	3.69	3.68	2.79	—	—	3.32
For the year	$ (0.68)	$ 5.07	$ 3.41	$ (1.26)	$ (7.21)	$ (20.44)
Fully diluted—						
Before extraordinary items	$ (3.13)	$ 1.06	$ 0.50			
Extraordinary items	2.72	2.70	2.15			
For the year	$ (0.41)	$ 3.76	$ 2.65			

*PRE-TAX EARNINGS (LOSS) BY DIVISION (000's)

Television and production division	$ 5,086	$ 5,104	$ 3,025	$ (839)	$(4,798)	$(15,806)
Soccer division and related investment costs	(1,360)	—	—	—	—	—
Record division and related investment costs	(3,178)	—	—	—	—	—
	$ 548	$ 5,104	$ 3,025	$ (839)	$(4,798)	$(15,806)

GLOBAL COMMUNICATIONS LIMITED

Consolidated Statement of Changes in Financial Position

Six Months ended February 28, 1979

(with comparative figures for 1978)

(Unaudited)	1979	1978
	(000's)	
SOURCE OF FUNDS:		
Operations—		
Income (loss) before extraordinary item	$ (383)	$ 460
Add charge not resulting in current outlay of funds:		
Depreciation and amortization	679	549
Total funds provided from operations	296	1,009
Recovery of income taxes payable on income before extraordinary item due to application of loss carry forwards of prior years	1,138	1,237
	1,434	2,246
APPLICATION OF FUNDS:		
Funds applied (net) in financing non-current film and program rights	732	1,366
Less decrease in non-current portion of related rights	(358)	(1,302)
	374	64
Net outlay of funds on acquisition of subsidiary	1,749	
Purchase of fixed assets—net	575	228
Provision for debenture instalment	262	
Principal repayment on 1974 Series A Debentures	225	
	3,185	292
Increase (decrease) in working capital	(1,751)	1,954
Working capital (deficiency) beginning of period	(463)	(1,398)
Working capital (deficiency) end of period	$ (2,214)	$ 556
Represented by:		
Current assets	$23,609	$11,045
Less current liabilities	25,823	10,489
	$ (2,214)	$ 556

GLOBAL COMMUNICATIONS LIMITED

INTERIM REPORT

Six months ended

February 28, 1979

To the Shareholders:

Our report for the six months ended February 28, 1979 reflects the uncertainties currently being felt in the television broadcasting industry and the increasing cost of program acquisition.

Time sales revenue for the Global Television Network increased approximately 13.5% over the same period last year. The balance of the reported revenue consists of production and syndication revenue and the record and tape sales activity of Tee Vee Records. Our airtime bookings for the balance of the year continue to reflect the generally moderate growth of the advertising segment of the economy.

Global incurred a loss before extraordinary items for the six month period of $383,000 compared to an income of $460,000 for the same period last year. Final net income for the period increased to $755,000 as a result of the inclusion of $1,138,000 arising from income taxes recovered from the application of prior period losses. Final net income for the same period last year after the inclusion of income taxes recovered was $1,697,000.

Costs have been incurred in reorganizing our newly acquired subsidiary, Tee Vee Records; however, we expect improvements in the second half of the year such that its results for the full year should not have a significant impact on our income.

Your Company's purchase of control of the Blizzard, Toronto's franchise in the North American Soccer League, was completed effective February 1, 1979. The inclusion of the one month of operations of the Blizzard had an immaterial effect on Global's operating results for the six months ended February 28, 1979.

Toronto, Ontario
April 5, 1979

I. H. ASPER
Chairman of the Board

PAUL MORTON
President

GLOBAL COMMUNICATIONS LIMITED
Consolidated Statement of Income
Six Months ended February 28, 1979
(with comparative figures for 1978)

(Unaudited)	1979	1978
	(000's)	
Revenue	$23,989	$14,753
General, administrative and operating expenses	20,919	10,829
Operating income before the undernoted items	3,070	3,924
Interest expense—net	629	797
Depreciation and amortization	680	549
	1,309	1,346
Income before the following	1,761	2,578
Provision for income taxes	1,138	1,237
Income before interest on income debentures and extraordinary items	623	1,341
Interest on income debentures:		
Interest on Series A Income Debentures	261	213
Interest on 1974 Series A Debentures	190	
Provision for interest on 1974 Series B Debentures	555	668
	1,006	881
Income (loss) before extraordinary item	(383)	460
Extraordinary item:		
Income tax recovery arising from utilization of prior period losses	1,138	1,237
Net income for the period	$ 755	$ 1,697
Earnings per share:		
Basic—		
Income (loss) before extraordinary item	$ (.57)	$ .69
Extraordinary item	1.71	1.86
Net income for the period	$ 1.14	$ 2.55
Fully diluted*—		
Income (loss) before extraordinary item	$ (.36)	$ .53
Extraordinary item	1.26	1.41
Net income for the period	$ .90	$ 1.94

* Fully diluted earnings per share shows the effect on earnings per share which would result if the outstanding warrants to purchase 224,839 common shares at $7 each and the outstanding option to purchase 14,000 common shares at $7 each were all exercised at the beginning of the period. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the warrants and the option had been invested to produce an annual return of 10%, before applicable income taxes and interest on income debentures.